




Obama Plans to Propose \$38 Billion Business Tax Break (Update3)

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By Ryan J. Donmoyer and Roger Runningen



Jan. 27 (Bloomberg) -- President **Barack Obama** tonight will propose extending through 2010 a temporary tax incentive that encourages businesses to accelerate purchases of equipment, an administration official said.

Obama will call for renewal of the 50 percent so-called bonus depreciation in his State of the Union address to the nation, said the official, who spoke on condition of anonymity.

Extending the break, which **expired Dec. 31**, would save companies that make purchases of equipment such as tractors, wind turbines, solar panels and computers a total of \$38 billion over this year and next by allowing a 50 percent write-off of the cost in the first year, the official said.

"That's a twofer for manufacturers," said **Monica McGuire**, senior policy director of taxation for the **National Association of Manufacturers**, a Washington trade group that has lobbied for the extension. "It helps the sellers of capital equipment and it helps the buyers of capital equipment. It's more than a net-positive."

Bonus depreciation was an element of the \$787 billion economic-recovery legislation adopted last February. It has also been a feature of earlier stimulus measures, including those adopted in 2002 and 2003 under President **George W. Bush**.

While companies will realize tax savings in the year they purchase qualified equipment, they'll pay higher taxes in subsequent years when the property is fully depreciated.

Democratic Support

Most major business groups including NAM and the U.S. Chamber of Commerce have urged lawmakers to adopt accelerated depreciation schedules as a stimulus measure. The policy is supported by top Democrats including House Speaker **Nancy Pelosi** and Senate Finance Committee Chairman **Max Baucus**.

Economists have challenged its efficacy as a stimulus measure. A study by Federal Reserve Board economists Darryl Cohen and **Jason Cummins** found the 2002 subsidy, which provided a 30 percent write-off in the year equipment was purchased, had "a very limited impact" on investment spending.

A **subsequent study** by Treasury Department economist Matthew Knittel found the bonus depreciation incentives from 2002 to 2004 were largely ineffective. Companies claimed the break for only about 60 percent of their eligible investments, he said. That may be because they weren't in a position to benefit because of losses and therefore had no tax to reduce with the deductions, he wrote.

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